

STATE OF TENNESSEE

Office of the Attorney General



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Reply to:
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August 18, 2003

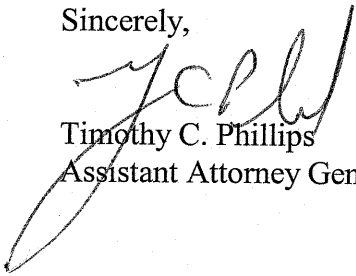
Honorable Deborah Taylor Tate
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

**RE: APPLICATION OF NASHVILLE GAS COMPANY, A DIVISION OF
PIEDMONT NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS
RATES AND CHARGES, FOR APPROVAL OF REVISED TARIFFS AND
APPROVAL OF REVISED SERVICE REGULATIONS, Docket 03-00313**

Dear Chairman Tate:

Enclosed is an original and thirteen copies of the Consumer Advocate's Direct Testimony of Michael D. Chrysler. Kindly file same in this docket. Copies are being sent to all parties of record. If you have any questions, kindly contact me at (615) 741-8700. Thank you.

Sincerely,


Timothy C. Phillips
Assistant Attorney General

Enclosures

cc: All Parties of Record

#67856

Before the

TENNESSEE REGULATORY AUTHORITY

**IN RE: APPLICATION OF NASHVILLE GAS COMPANY,
A DIVISION OF PIEDMONT NATURAL GAS COMPANY, INC.,
FOR AN ADJUSTMENT OF ITS RATES AND CHARGES, THE APPROVAL OF
REVISED TARIFFS AND THE APPROVAL OF REVISED SERVICE REGULATIONS
DOCKET NO. 03-00313**

**DIRECT TESTIMONY
OF
MICHAEL D. CHRYSLER**

August 18, 2003

Q-1 Please state your name for the record.

A-1 My name is Michael D. Chrysler.

Q-2 By whom are you employed and what is your position?

A-2 I am employed by the Consumer Advocate and Protection Division ("CAPD") in the Office of the Attorney General for the State of Tennessee as a Regulatory Analyst.

Q-3 How long have you been employed in the utility industry?

A-3 A little over 30 years. Before my employment with the Attorney General, I was employed with Terre Haute Gas Corporation for approximately 2 ½ years and Northern Indiana Public Service Company (NISOURCE) for 24 years.

Q-4 What is your educational background?

A-4 I have a Bachelors degree in Business Administration from Fort Lauderdale University (1970) with a major in accounting. Additionally, I have attended numerous "outside" training classes including Arthur Andersen Rate Case School, American Gas Association Rate Case School, NARUC Eastern Utility Rate School, and a mini MBA school offered to NIPSCO Senior Management (and invited staff) provided by Purdue University Northwest.

Q-5 Describe your work experience.

A-5 Before joining the Consumer Advocate and Protection Division, I was employed by Terre Haute Gas Corporation as an Assistant Office Manager; with NIPSCO in various positions in Consumer Accounting, Rate and Contract, Strategic Planning,

Consulting Services; and, finally as Principal of Electric Business Planning Departments. As a Regulatory Analyst, I am responsible for analysis and development of utility issues as assigned.

Q-6 What is the purpose of your testimony in this proceeding?

A-6 My comments will be directed to the Nashville Gas proposals for the inclusion of new expenses to cover the added cost of the "MVP Program" also know as the "Short Term Incentive Program" and GTI (also known as GRI or Gas Research Institute) costs.

Q-7 Would you please describe the MVP proposal as presented by Nashville Gas?

A-7 Yes, the MVP Program is a strategic planning tool embodying the corporate goals of Senior Management transcending through supporting goals and objectives of departments to individuals. Theoretically, as departments and individuals achieve their goals, the Company will achieve management's vision of "success." In return for exceeding Earnings Per Share ("EPS") targets (ostensibly due to meeting department/individual goals), an incentive bonus program will be consummated distributing the overcollection between the Company and participating employees.

Q-8 What do you mean by "overcolletion"?

A-8 Our case already includes 100% of the cost of service to cover current and projected cost increases. For example, we have allowed an 18% increase from projected insurance costs in our projections. If NGC "saves" a million dollars that consumers' rates already covers NGC will "overcollect" a million dollars. We support NGC's efforts to reduce expenses to produce savings, however it is wrong to ask Tennessee consumers to pay another \$387,000 to reward the company for overcollecting a million dollars.

Q-9 Could you discuss the differences between the "Long Term" and "Short Term" Incentive Proposals presented by the Company?

Q-9 Yes, while specific treatment of the Long Term Incentive Proposal will be discussed by our witness, Mr. Crocker; my comments will be directed to the Short Term Incentive Proposal also identified as the "MVP Program".

While the Long Term Incentive Proposal has been incorporated in previous rate requests, the Short Term Proposal is a new proposal. The intention of the Long Term Program is directed at keeping Senior Management employees (Director level and above) at Piedmont; while the new Short Term Program is aimed at management level employees below the "Director" level and is viewed as "bonus opportunity" which will be "self-finding" as the Company achieves its "Strategic Vision". My following comments will further discuss the new proposal.

Q-10 What employees participate in the MVP Program?

A-10 At this time only management personnel (below Director level) of Piedmont (Nashville Gas) are eligible to participate in the "incentive cash bonus" program; i.e., "employees covered by our union contracts will not have MVP plans and are not eligible for this incentive cash bonus opportunity." (**Exhibit MDC - 1**)¹ Further: "Ideally, this opportunity could be expanded to include employees in the union, if and when these provisions are negotiated with the union during contract negotiations."²

¹ Piedmont Natural Gas, "The Insider", October, 2002, Volume 21 Issue 3, p.5 paragraph 2, "New Incentive cash bonus opportunity"

² Ibid

Q-11 How will the, MVP Program work?

A-11 According to *The Insider*³, “if the collective efforts of employees and departments result in the Company exceeding a target Earnings Per Share (EPS) goal, then a new incentive cash bonus opportunity will be available for all eligible employees. With this scenario, the earnings in excess of the targeted EPS amount will be shared between the Company and employees. The earnings in excess of the targeted EPS will fund an incentive bonus pool— up to an amount approved by the Company’s Board of Directors and distributed under Board-approved guidelines. From this pool, each eligible employee will receive a bonus opportunity.”

Q-12 How will success be measured?

A-12 At the beginning of the year, individuals and departments will develop certain goals to support the achievement of the financial, customer service, internal process and cultural goals outlined in the program.

“Success” will be based on a subjective annual review analysis by Senior Management of the achievement of individual and departmental objectives reinforcing the corporate, financial, customer service, internal process, and cultural goals incorporated in the MVP proposal; and, “If the collective efforts of employees and departments result in the Company exceeding a target Earnings Per Share (EPS) goal.”

Q-13 How will the stockholders and ratepayers benefit from the proposal?

A-13 Stockholders will benefit from the proposal as the Company achieves or exceeds its EPS goal on a regular, annual basis. Benefits to ratepayers are less clear, especially given that

³ Ibid

most of their contact with the Company is through bargaining unit personnel not participating in the plan. Additionally, the proposal is incomplete since we have two differing Company proposals⁴ and the "weighting" of identified goals are inconsistent.

Q-14 Why are planned participants in the MVP Plan improper?

A-14 As stated previously, the employees identified to participate in the program are management employees below Director level. Clearly these employees have an important role within the company; i.e., they are the supervisors, accountants and engineers that "manage" the bargaining unit personnel from the general parameters of top management. However, unlike the bargaining unit personnel that can have their job assessment measured by metrics identified (and further discussed in Question 16), job improvement metrics for this group (management level) of employees are much more difficult to quantify - (as detailed in the "Method to Measure" column of the MVP Plan detail). An analysis of these "measures" suggest that opinion and subjective reasoning point to a "value" determined by the manager preparing the analysis and which may not add value to the ratepayer.

More directly, this group of employees can contribute to "value" to the company, the stockholders, and the ratepayers by having fewer numbers of employees (layoff or reduction in force) meeting management objectives. In the past few years, utilities have cut staffing level personnel and merged with other companies, obtaining improvement in Earnings Per Share through continual job elimination. Additionally, as companies are acquired, redundancies appear within the new composite management structure.

⁴ (compare *The Insider*, (Exhibit MDC- 1), pg. 6 weightings vs. "FY2004 Draft Company MVP Plan" - To Be Determined "TBD" (Exhibit MDC - 2), pgs. 2-4 until Board of Directors approval)

Typically job eliminations transpire, creating reduced Operating and Maintenance expenses (O&M) and improvement in earnings. In the short term this improvement to earnings goes to the company and the stockholder; in the long term this benefit can go to ratepayers through reduced rates. The MVP Program would short-circuit this benefit (of reduced payroll expense) to the ratepayers by actually costing consumers more money rather than passing savings on to consumers.

Q-15 The Company states (Exhibit MDC - 3⁵) that, "In October, the Company was pleased to receive notification from J.D. Power and Associates that we ranked second in the nation in customer satisfaction among natural gas utilities, missing the top position by only one point." How will that distinction impact the "MVP Program?"

A-15 While we salute Piedmont in their service quality achievement, details of J.D. Power's analysis or comparisons of companies in the review are not public record; therefore, without source data, independent analysis is not possible. Without knowing what metrics were used or how they were analyzed, tie-ins with the MVP Program are impossible to project.

Q-16 Since the J. D. Power & Associates metrics are not available, what metrics should be used to measure service quality for future periods?

A-16 The metrics identified as #28 in the "Filing Guidelines For Rate Cases" provide a summary of quality of service metrics for Customer Service, Service Department, Meter Services and Construction which could be used for comparison between companies and to assure the TRA and its customers that Nashville Gas's service quality does not

⁵ Piedmont Natural Gas, "Review of Operations", p. 5, "Customer Satisfaction"

decrease in the future.

I would encourage the TRA to utilize this level of service quality as a baseline for future comparison. Additionally, these measures of service quality may be used to compare with other LDC's, providing a relative service quality standard.

Q-17 What recommendation can you provide the Tennessee Regulatory Authority with respect to inclusion of approximately \$387,000 ⁶ in costs related to the "MVP Program?"

A-17 As stated previously, according to *The Insider*, page 5, paragraph 2, line 7, *"The earnings in excess of the targeted EPS will fund an incentive bonus pool - up to an amount approved by the Company's Board of Directors and distributed under Board approved guidelines."*

If the excess earnings will fund the program, we see no need to put extra costs in this case. It appears that if the program is successful, it will be self-funding; i.e., savings or extra profits will be generated. The Company can share a portion of the "excess earnings" with employees and keep the rest for the stockholders. We urge the Authority to eliminate all costs associated with the program from recovery and examine the sharing ratio between employees and stockholders.

Q-18 What are your concerns/recommendation for the requested \$185,000 (Exhibit MDC

⁶ "Nashville Gas Company, Filing Guidelines For Rate Cases, 03-00313" Section 44, Sw-7, p.7 (Confidential)

- 4 line 7)⁷ Research and Development expenditure for GTI?

A-18 The R& D costs included for supporting the Gas Research Institute is a long-term research program commitment dedicated to various research projects supported by numerous local distribution systems and other organizations throughout the United States. Although specific projects of interest in the proposal were not identified for funding by Nashville Gas, GTI allows direction of funding dollars to programs of interest to the Company or the State Regulatory Authority.

Nashville Gas has no definitive proposals in directing the contributions from ratepayers - the company just suggests "contributing" for general purposes. Without a proposal for definitive direction of contributions to better understand the benefit to ratepayers (or lack thereof), we suggest elimination of the proposed expense.

Q-19 Does this conclude your testimony?

A-19 Yes, it does.

⁷ Nashville Gas Company, Filing Guidelines for Rate Cases Before the Tennessee Regulatory Authority, Docket No. 03-00313, Section 25, p.46 of 185, Line 7

Before the

TENNESSEE REGULATORY AUTHORITY

**IN RE: APPLICATION OF NASHVILLE GAS COMPANY, A
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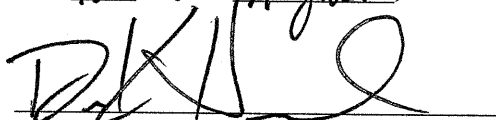
DOCKET NO. 03-00313

AFFIDAVIT

I, Michael D. Chrysler, Regulatory Analyst, for the Consumer Advocate and Protection Division of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate and Protection Division.


MICHAEL D. CHRYSLER

Sworn to and subscribed before me
this 18 day of August, 2003.


NOTARY PUBLIC

My commission expires: Sept. 24, 2005

Exhibit MDC-1



THE Insider

PUBLISHED FOR PIEDMONT NATURAL GAS EMPLOYEES & THEIR FAMILIES

OCTOBER 2002

VOLUME 21 / ISSUE 3

mission

Business Scope

Our core business is regulated retail natural gas distribution in the growing Southeast markets. We will also leverage the strengths of our markets and our core abilities to pursue complementary non-utility business opportunities with particular focus on wholesale and retail energy services.

Customer Satisfaction

We will know our customers and meet or exceed their expectations. We will honor our commitments to our customers and strive to always provide accurate and timely services and information. Our services will be provided in a safe and reliable manner.

Employees

We are committed to developing our employees to be valuable contributors in the workplace and in the community. We will provide career opportunities and the continuing education necessary for our employees to perform their jobs in a quality manner.

Operational Efficiency

We will continuously find and implement operational efficiencies. We will market and deliver our products and services using best practices and cost effective technologies.

Communities We Serve

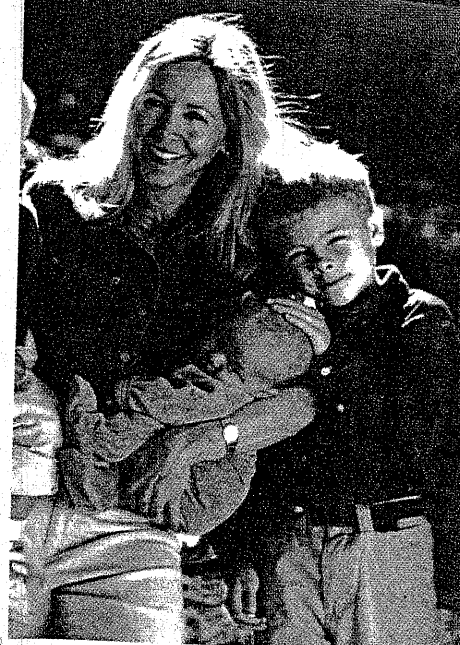
We will provide the time and resources to promote and improve the economic, environmental and social vitality of our service areas. We will be active corporate and individual participants.

Profitable Growth

We are committed to profitable growth. We will continue to pursue acquisitions and business ventures on an opportunistic basis.

VALUES
PERFORMANCE

VP



The MVP Program

values

Integrity

We will make decisions, manage relationships, and carry out our day-to-day responsibilities with the highest level of integrity and trust. Integrity and trust is fundamental in everything we do. Our word is our bond.

Employees

We will treat each other with dignity and respect and value diversity in the workplace. Each of us will have the opportunity and expectation to contribute to the success of the company. We view employment at Piedmont as a privilege.

Customers

We will satisfy our customers' needs with services delivered in a timely, accurate and friendly manner. Their problems are our problems. Their satisfaction is our success.

Workplaces

We will create safe and positive places to work where we can be productive and encourage each other to exceed expected results. Our workplaces will reflect the energy and excitement we have about our work, our Company, and one another. We will foster supportive environments where we embrace the opportunities that accompany change.

Interacting With Each Other

We will share information and opinions freely to create the knowledge necessary to make good business decisions. We will be open and honest with each other. We will coach each other and give positive reinforcement and constructive feedback. We will work as a team and share success.

Investors

We will make decisions based on the best long-term interests of our investors. We will take reasonable risks that can enhance the value of our Company.

Regulators

We recognize that we are primarily a regulated utility and we value our relationship with the governmental authorities that impact our business. We will strive to achieve win-win solutions for our Company and constituents.

Communities

We will be leaders in our communities. We recognize that every day we represent the Company on and off the job.

*It's on posters,
banners, T-shirts
and wallet cards.*

In fact... it's everywhere.

And just what is "it"?

The "it" is the MVP (Mission, Values, Performance) program. You probably first heard about MVP at one of the employee breakfast meetings held across Piedmont's system. Now you're hearing more and more references to MVP. So what exactly is MVP and why is "it" so important?

"The MVP program is a planning and performance management process," said Tom Skains, President & Chief Operating Officer. "It's a tool to help ensure that the Company knows where it is headed and how it will get there. This process will help every department and every employee understand his or her role in the Company successfully reaching its identified goals. As everyone becomes more clear on the goals and objectives and has a shared understanding of how we'll accomplish them, we're better positioned to succeed. The MVP program will help create ways to measure Company, department and individual performance as we continue on our MVP journey."

Planning for success

The MVP process starts with planning at an overall Company level. This planning establishes the context for everything the Company does and becomes the basis for department and individual employee plans. Early in the MVP process Piedmont's officers and other managers started working together to define and refine the Company's "vision" (which states why we exist), the "mission" (what we will do) and our "core values" (what we believe in).

"Our vision, mission, and core values — shared with everyone at the employee breakfast meetings and printed throughout this publication — are the underlying foundation for all of our decisions and actions," added Skains. "The planning group also started identifying company priorities as we progress toward our vision, mission and values. This information — while at the core of MVP — is just the first step. To be successful at our Company vision, mission, and core values, words must be translated into actions with performance targets defined for the Company, departments and individuals so that everyone knows what needs to be done — and what success looks like."

To help translate the ideals and words into actions, a Company MVP Performance Plan was created. This plan reflects the Company priorities discussed in the employee meetings and includes more concrete ways to measure our progress. Specifically, measures are defined for three levels of performance — threshold, target, and stretch — to help gauge our progress on Company objectives for fiscal year (FY) 2003 — the 12 months beginning November 1, 2002. The complete Company 2003 MVP plan (the Plan) is displayed on pages 6 & 7.

VALUES
PERFORMANCE

MVP

Priorities defined and measured

As you read through the Plan, notice that the Company priorities have been defined and will be measured by a number of initiatives, or projects, during the fiscal year. These projects include conducting a company-wide employee survey, developing community involvement strategies, a study of how we can make the Company become more profitable, customer service measurement studies, better management reporting and many others. You'll probably see or hear these referred to as "MVP initiatives".

Company performance is a combination of the actions and decisions of groups (departments) and individuals, so responsibility for the objectives are spread across the organization to departments and individuals to give everyone a better understanding of their contribution for achieving the Company vision, mission, and core values. To help in this process, departmental and individual MVP performance plans are being created. A key component of the overall MVP process is defining and aligning departmental and individual goals.

Across the districts and departments, groups of employees defined what their work groups will produce for the Company to be successful. These region, district, and departmental plans were developed along with the budgeting process so the necessary resources were identified and allocated to allow that performance to occur. In each case, these work group plans align to the accountabilities reflected on the Company plan to ensure that regions, districts, and departments are focused on actions that lead to successful Company performance. Final departmental plans were reviewed and submitted to management in August and September. Once approved, each region, district, and department will have a clear picture of what their work group is accountable for producing and how success will be measured.

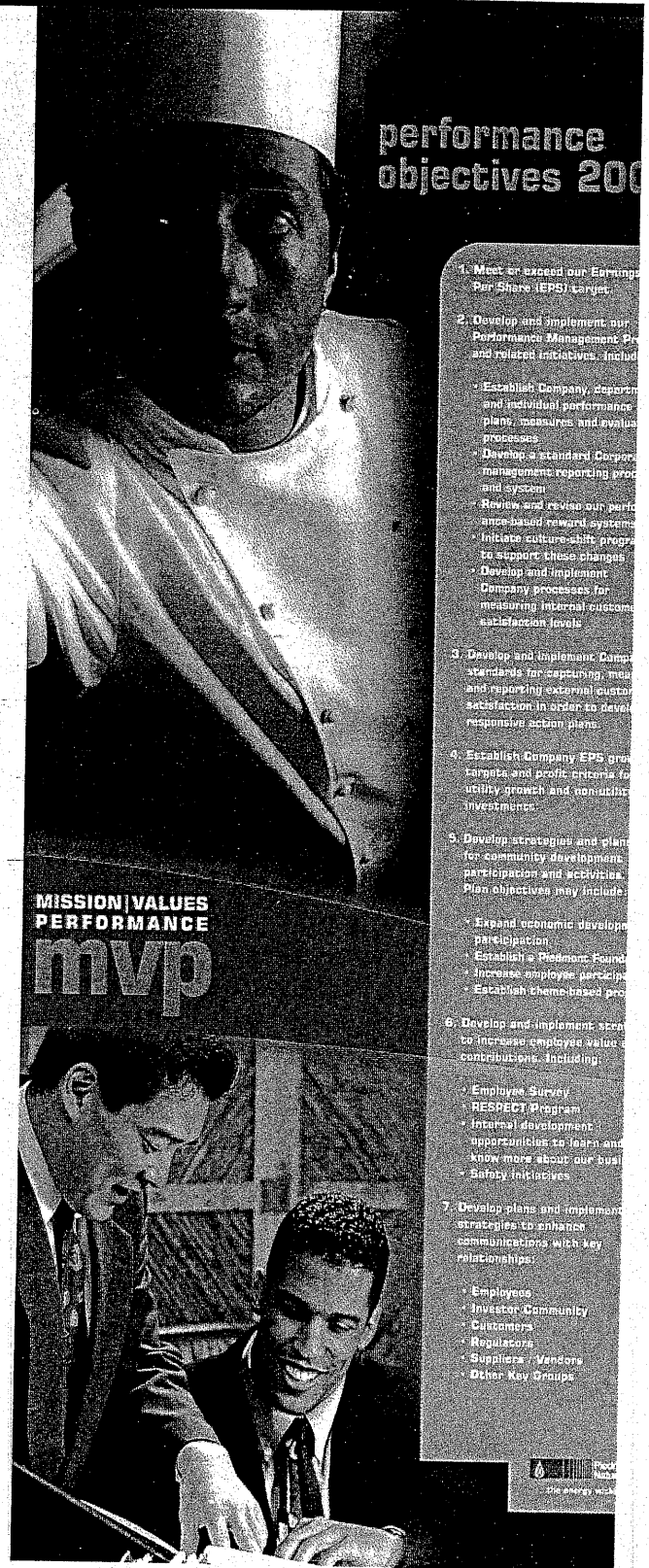
Developing individual MVP plans

Developing individual MVP plans is the last step in defining and aligning goals. Individual MVP plans will identify each employee's accountabilities so that the work group is successful at meeting the departmental plan that ultimately contributes to the Company successfully meeting its MVP plan. The individual plans are the final component of making sure each employee's actions are focused on performance that aligns with the Company's goals and objectives. Individual plans will be developed in September and October. During those two months training will be provided to managers and supervisors on how to use the Company plan and their departmental plan to work with individual employees as they define their personal MVP plans.

All non-union employees will work closely with their managers to write their own individual MVP plans for FY2003. The individual plans will specifically identify what the employee and his or her manager agree needs to be accomplished, how to gauge the individual's success for the three levels of performance (threshold, target and stretch), and how that accountability ties to the individual's department plan. All employees will have knowledge of the Company, their department, and individual MVP plans by the start of FY 2003. With this complete picture, everyone will be better able to make decisions and take actions that result in successful performance.

As you can see, the planning components of MVP process serve an important purpose. The process provides a format for defining and communicating what the Company wants to accomplish both long-term and for a given fiscal year. In addition,

(continued on page 4)



performance objectives 200

1. Meet or exceed our Earnings Per Share (EPS) target.
2. Develop and implement our Performance Management Plan and related initiatives. Included:
 - Establish Company, department and individual performance plans, measures and evaluation processes.
 - Develop a standard Corporate management reporting process and system.
 - Review and revise our performance-based reward systems.
 - Initiate culture-shift programs to support these changes.
 - Develop and implement Company processes for measuring internal customer satisfaction levels.
3. Develop and implement Company standards for capturing, measuring and reporting external customer satisfaction in order to develop responsive action plans.
4. Establish Company EPS goals, targets and profit criteria for utility growth and nonutility investments.
5. Develop strategies and plans for community development, participation and activities. Plan objectives may include:
 - Expand economic development participation.
 - Establish a Piedmont Foundation.
 - Increase employee participation.
 - Establish theme-based projects.
6. Develop and implement strategies to increase employee value contributions, including:
 - Employee Survey.
 - RESPECT Program.
 - Internal development opportunities to learn and know more about our business.
 - Safety initiatives.
7. Develop plans and implement strategies to enhance communications with key relationships:
 - Employees.
 - Investor/Community.
 - Customers.
 - Regulators.
 - Suppliers/Vendors.
 - Other Key Groups.

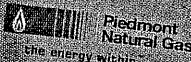
MISSION | VALUES
PERFORMANCE
mvp

values

- Integrity
- Employees
- Customers
- Workplace
- Interaction
- Investors

mission

- Business Scope
- Customer Satisfaction
- Employees
- Operational Efficiency
- Communities We Serve
- Profitable Growth



MISSION | VALUES PERFORMANCE mvp

vision

To be the customer's choice for natural gas distribution and complementary services in our growing Southeast markets.

MISSION | VALUES PERFORMANCE mvp

values

- Integrity • Employees
- Customers • Workplace
- Interaction with each other
- Investors • Regulators
- Communities



MISSION | VALUES PERFORMANCE mvp

mission

- Business Scope
- Customer Satisfaction
- Employees
- Operational Efficiency
- Communities We Serve
- Profitable Growth



(continued from page 3)

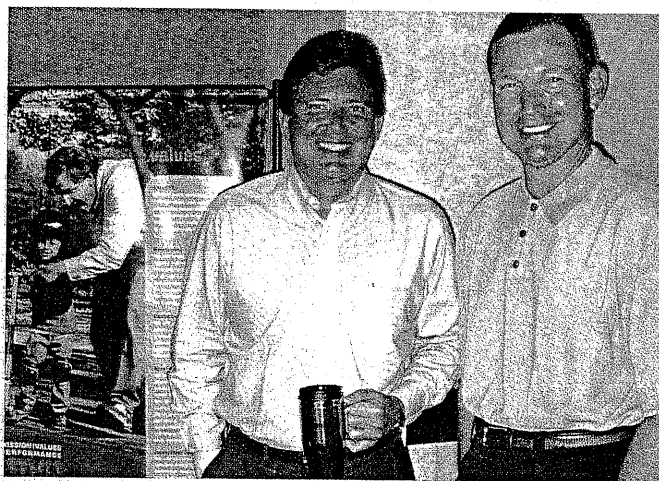
the process increases the probability of successfully reaching those accomplishments by making sure departments and individuals know what they are accountable for producing. The MVP process also aligns everyone's efforts to a common calendar — in our case — our fiscal year. Under MVP, the Company, department and individual plans and how we measure performance against those plans are linked by results and time.

Improving the probability of success

Throughout FY2003 the MVP process will continue by providing opportunities to track performance and measure progress on the various plans through periodic MVP progress reports. These performance checkpoints will allow individuals, departments, and the Company to gauge how things are going and to look for opportunities to leverage performance. If you aren't on target for a given accountability and plan, these checkpoints will allow you to take actions to improve your probability of success. If you are on target, the checkpoints will help you know where you stand and allow you to direct your efforts to reach stretch goals or to assist others in meeting shared goals that are not at target. The MVP checkpoints will provide the necessary feedback to allow individuals, departments and the Company to make adjustments throughout the year to reach maximum effectiveness.

"At the end of the fiscal year, the MVP process will serve as a means to reflect how we did. Individuals will compare their actual performance to their MVP individual plan targets. Departments will look at their performance relative to the departmental plans and the Company will assess how well we did overall. This will be our opportunity to celebrate our successes and to learn from missed opportunities," Skains emphasized.

In addition, looking at performance provides a basis for sharing rewards. On an individual basis, the MVP process is designed to replace our current performance appraisal and merit increase program. Under the MVP process, individuals' performance relative to their individual MVP performance plans (individual and department plans for managers and supervisors) along with how consistently they "walk the talk" of our core values, becomes the basis for a performance rating and the guidelines for a merit increase.



The exact mechanics of how the MVP plans and results will be used for performance appraisals and merit increases are still being finalized and will be communicated as soon as they are complete. However, the MVP performance plans will be based on a fiscal calendar year ending October 31, and merit reviews will also need to align to that calendar. In November 2002, all non-union employees will be moved to a common merit review date. To transition employees to an end of fiscal year review date, merit increases will be given in November 2002 at pro-rated amounts for each employee, based on the time since that employee's last merit increase. Your manager or supervisor will be able to tell you more about transitioning our review dates and using MVP for merit purposes in early November.

New Incentive cash bonus opportunity

One of Piedmont's core values is to "work as a team and share success." In keeping with this philosophy, the rewards under the MVP process may be greater than just a merit increase. If the collective efforts of employees and departments result in the Company exceeding a target Earnings Per Share (EPS) goal, then a new incentive cash bonus opportunity will be available for all eligible employees. With this scenario, the earnings in excess of the targeted Earnings Per Share (EPS) amount will be shared between the Company and employees. The earnings in excess of the targeted EPS will fund an incentive bonus pool — up to an amount approved by the Company's Board of Directors and distributed under Board-approved guidelines. From this pool, each eligible employee will receive a bonus opportunity. All employees that are not covered by our union contracts will have individual MVP plans and be eligible for bonus opportunities when the Company exceeds its EPS goal. The amount of the bonus for any given employee will be based on his or her performance and contribution to departmental and Company plans. So, every non-union employee has a vested interest in the Company's performance, how their department performs, and how he or she performs individually.

Currently, employees covered by our union contracts will not have MVP plans and are not eligible for this incentive cash bonus opportunity. Ideally, this opportunity could be expanded to include employees in the union, if and when these provisions are negotiated with the union during contract negotiations.

Please note that bonus opportunities only exist when the Company exceeds the EPS target that has been established and approved by the Company's Board of Directors. If all our combined efforts fail to produce the planned success for our shareholders, there is no additional monetary success to share. Like the merit program, you will receive more information later about the MVP "incentive cash bonus" program.



"So, what is the MVP program? It's our way of planning, performing, measuring and rewarding employees for doing the right things, at the right levels of performance, the right way, with the right results," added Skains.

"The process makes sure that everyone has opportunities to make value-added contributions delivered in a manner that is consistent with our core values," Tom continued. "MVP is also our way of aligning individual and departmental work efforts to increase the Company's probability for success. MVP is important because individual success leads to departmental success that leads to Company and shareholder success. This is new to us all and if we don't exceed the EPS target, we'll still celebrate our hard work and progress toward goals, but shareholder results are the ultimate test for larger rewards. When the Company is successful for our shareholders and customers, we all stand to gain," he concluded. ▲

Piedmont Natural Gas

MVP

	ACCOUNTABILITY	METHOD TO MEASURE	WEIGHT
FINANCIAL	• Increase Shareholder Value	• EPS Target	15%
	• Achieve Financial Objectives	• Profitable Growth Project / Initiative	15%
CUSTOMER SERVICE	• Deliver Products & Services That Meet or Exceed Customer Expectations	• Customer Service Project / Initiative to identify and standardize customer service and satisfaction measures and obtain baseline data	15%
	• Manager Customer Relationships as Valuable Assets		
INTERNAL PROCESS	• Be a Good Corporate Citizen by Actively Participating in the Communities We Serve	• Implementation of a Matching Gifts Program & Community Involvement Tracking System	15%
	• Provide Safe, Secure, Reliable Service	• (Measured in FY 2003 as part of Departmental Accountabilities)	
	• Manage Key Relationships to Maintain Positive Business Environment	• Development & progress on company-wide communication plan covering all major stakeholder groups	15%
	• Implement Operational Efficiencies & Achieve Expected Benefits	• (Measured in FY 2003 as part of Departmental Accountabilities)	
CULTURAL	• Build Results Focused Organization	• Implementation of Management Reporting Structure and MVP Processes	10%
	• Enhance Employee Value	• Implementation of PNG University	
	• Communicate & Exhibit Shared Values	• Employee Survey	
		• Employee Development Tracking Methodology and Process	15%
		• RESPECT	
			100%





THRESHOLD

- N/A
- Profitability Study Completed and Proposed Recommendations Implemented 11/01/03
- Customer Service Project Completed and Proposed Recommendations Implemented by 11/01/03
- Matching Gifts Program Implemented and Community Involvement Tracking System and Processes Implemented by 08/01/03
- N/A: *Threshold metric may be refined based on plan deliverables & timeframes

TARGET

- Identified EPS Target
- Profitability Study Completed & Proposed Recommendations Implemented 08/01/03
- Customer Service Project Completed and Proposed Recommendations Implemented by 08/01/03
- Matching Gifts Program Implemented and Community Involvement Tracking System and Processes Implemented by 05/01/03
- Communications plan completed by 11/01/02. Target communications delivered per plan.

STRETCH

- Identified EPS Target with full Short-term Bonus Pool
- Profitability Study Completed & Proposed Recommendations Implemented 05/01/03
- Customer Service Project Completed and Proposed Recommendations Implemented by 05/01/03
- Matching Gifts Program Implemented and Community Involvement Tracking System & Processes Implemented by 02/01/03
- N/A: *Stretch metric may be refined based on plan deliverables and timeframes

- Existing Management Reports in common repository by 01/01/2003
- Leadership Training for Sr. Officer group completed in FY2003

In FY 2003

- PNG University Curriculum & five modules implemented
- Survey Conducted
- Development Tracking Planned
- RESPECT Survey implemented company-wide

- Existing Management Reports in common repository by 01/01/2003 and initial management reporting process for MVP purposes in place by 02/01/03
- Leadership Training for all Officers completed in FY2003

In FY 2003

- PNG University Curriculum & ten modules implemented
- Survey Conducted and feedback provided to employees
- Development Tracking Planned & Piloted
- RESPECT Survey implemented company – wide and action plans documented

- Same as Target
- Leadership Training for Management Team involved in FY2002 planning activities completed in FY2003

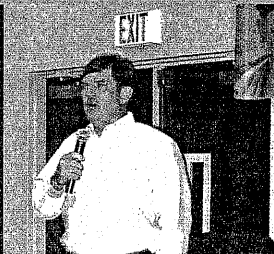
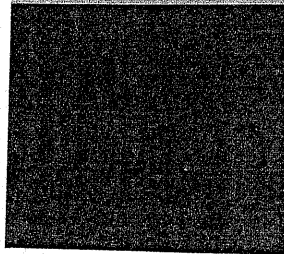
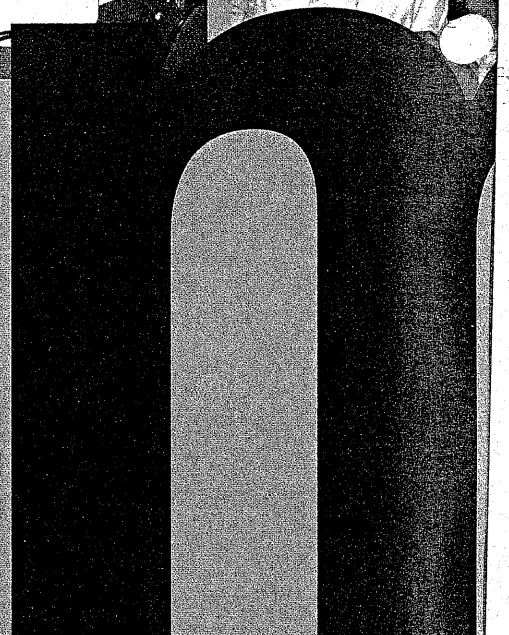
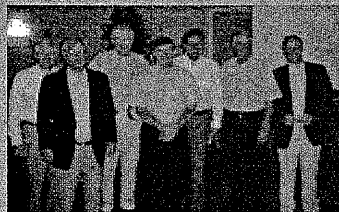
In FY 2003

- PNG University Curriculum & fifteen modules implemented
- Survey Conducted, feedback provided to employees, Company Action Plan developed
- Development Tracking planned, piloted, & implemented.
- RESPECT Survey implemented company – wide, action plans documented, and minimum of one RESPECT module implemented in each location.

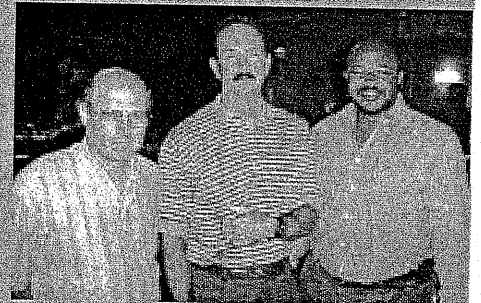


The Insider | Special MVP Edition

mvp breakfasts



Special MVP Edition | October 2002



WFO



when does the RESPECT PROGRAM start?

The RESPECT program
has been mentioned
repeatedly in conjunction
with the MVP process.

In fact, implementing the RESPECT program is one of the measures of the Company MVP performance plan for its accountability to "Communicate and Exhibit Shared Values."

The RESPECT program is being implemented to reinforce our Company's Core Values. Specifically RESPECT is a program to help all employees learn to appreciate one another and each other's viewpoints and to develop working relationships and conduct that reflect a "healthy" respect for everyone.

"Living our values will foster long-term success," said Richard Linville, Vice President - Human Resources. "The RESPECT program will help us to define, clarify, and build a shared understanding of how we 'walk' those values. All employees in this company are important and we want to make sure that we're all on the same page by treating everyone as they should be treated."

A complement to the RESPECT Program will be Piedmont's "Code of Ethics" that is being developed and will be published once it receives approval from the Board of Directors. The comprehensive plan will likely be available in early 2003. Information will be communicated and training will be available for the Code of Ethics.

IMPLEMENTED ON A LOCATION AND DEPARTMENTAL BASIS

The RESPECT program will be implemented throughout the Company on a location and departmental basis. As part of the RESPECT program, employees will start identifying values that seem to be consistently or inconsistently used in their work areas. Inconsistency on how a value is demonstrated may be due to a lack of knowledge, miscommunication or a lack of shared understanding about what the value means or looks like in action.

Once employees identify what areas could be more clear or need a greater degree of shared understanding, action plans will be built to start working on those values. As part of the action plans, RESPECT modules that deal with the identified values will be covered with employees. Each module will talk about what that value looks like in action and the minimum standard for conduct defined by law, our policies, and in many cases, both.

Then employees will work on case studies to help identify how different people view or use that value. The purpose of the RESPECT discussions is to allow differences to surface, be discussed and understood. Then work groups will collaborate to identify and agree on possibly higher standards of conduct they will use out of "respect" for one another. RESPECT action plans may include activities beyond the RESPECT modules and be as varied as the group decides.

So, when will RESPECT start? The program called RESPECT will be implemented company-wide during FY2003. Read the Company MVP Plan on pages 5 & 6 of The Insider to see the definition of threshold, target, and stretch goals for this important initiative.

"All of the RESPECT modules and activities are aimed at making our workplace a healthy and productive environment for everyone. Every employee will be involved in the program," added Linville.

So don't be surprised when you are *respectfully* asked for your help and participation. ♦



Welcome to the new employees who join us from North Carolina Gas Service (NCGS). Piedmont recently purchased the natural gas system from NUI Corporation for approximately \$26 million. As of October 1 – 14,000 customers in Rockingham and eastern Stokes counties became Piedmont customers.

Rockingham and eastern Stokes counties are right next to Piedmont's service territory, so the purchase is consistent with Piedmont's core business strategy of continuing to grow its natural gas distribution business by pursuing profitable acquisition and business opportunities in its Southeast markets.

"We're honored to include the North Carolina Gas employees as part of the Piedmont Natural Gas family," said Piedmont CEO Ware F. Schiefer. "As part of our mission, we intend to become a vital part of the communities in Rockingham and Stokes counties, and an exemplary corporate citizen – and with these fine employees joining us – that job just became a whole lot easier."

welcome
to the Reidsville
employees

Welcome to the following new employees:

Forrest L. Bedell
Service Technician
Annette E. Bolden
Customer Care Representative
Carla N. Bray
Collector/Meter Reader
Keith E. Burton
Collector/Meter Reader
Lynn M. Carter
Dispatcher
Duane W. Clark
Collector/Meter Reader
Benny W. Corum
Distribution Gasfitter
David I. Craig, Sr.
Distribution Gasfitter
Randy S. East
Machine Operator
James A. Fain
Welder
Lori A. Fargis
Collector/Meter Reader
William T. Ferguson, Jr.
Crew Leader - Distribution
Lynn Fisher-Goode
Utility Technician
Thomas W. Garrison
Utility Technician
Chris D. Graves
Customer Care Representative

Paul W. Graves
Distribution Gasfitter
Edward Hairston, Jr.
Crew Leader - Distribution
Bernard G. Hicks, Jr.
Utility Technician
Janet B. Holliman
Supervisor - Customer Service
Natalie H. Hooker
Administrative Specialist II
Randall K. Hudson
Utility Technician
Ernest G. Jessie
Distribution Regulator Service Technician
Christopher L. Jones
Machine Operator
Kenneth W. Kennon
Service Technician
Gary M. Knowles
Service Technician
Tommy W. Law
Utility Technician
Jason C. Matthews
Service Technician
Bradley L. Moore
Service Technician
Joseph H. Myers
Crew Leader - Distribution
Rachel J. Perdue
Distribution Gasfitter

Lewis D. Pickett
Distribution Gasfitter
Lawrence A. Poll
District Manager
Michael K. Purgason
Telemetering Specialist
Myra M. Ray
Compliance Coordinator
Anthony R. Santoro
Combination Sales Representative

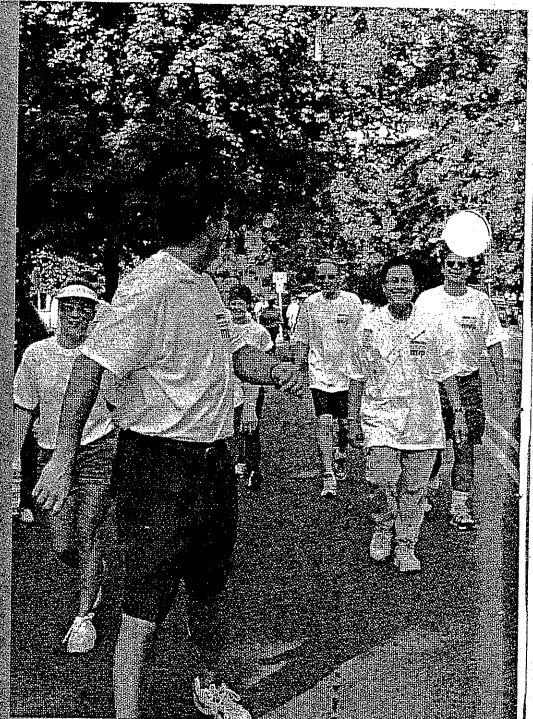
Donnie K. Searce
Service Technician
Michael P. Sipe
Distribution Supervisor
Kimily P. Snyder
Customer Care Representative
Evon E. Thomas
Administrative Specialist II
Francis I. Thompson III
Service Technician

George R. Vessenmeyer
Utility Technician
William E. Ware
Storekeeper
Darrell R. Watkins
Service Technician
Gary W. Wilkins
Service Supervisor

ACTIVE DUTY:

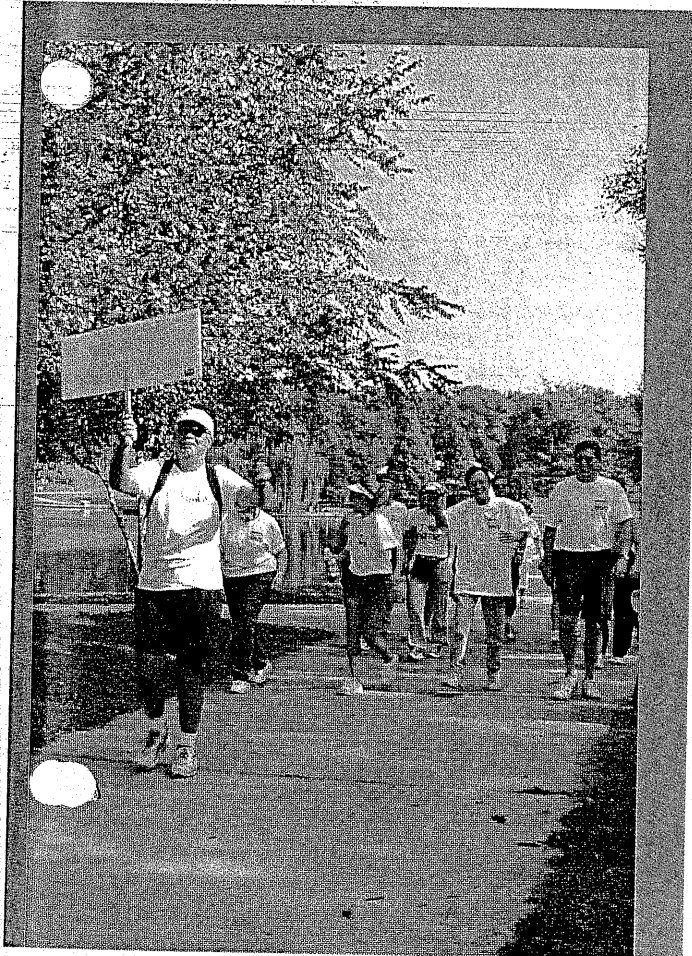
Chad Rayle, Gas Fitter in the Greensboro Operations Center, has been on active duty since September 11, 2001. He is based at Seymour Johnson Air Force Base and spends every other month training pilots in France. If you'd like to send a card or note to Chad or his family, his wife's name is Suzanne and the boys are Chance, 6, and Jordan, 3.

Please send everything to **Betty Mills** at the Greensboro Operations Center. She'll make sure they get it.



the charlotte metro **HEART WALK**

A team of 50+ walkers, clad in MVP t-shirts, represented Piedmont at the Charlotte Metro Heart Walk on September 7. The PNG team raised an incredible \$16,500 - triple last year's contributions! Thanks to the team captains, walkers and each of you who donated to the cause. With your help, the Charlotte Chapter of the American Heart Association exceeded its goal of \$300,000. Here are Piedmont's participants:



- ☐ Dana Bailey
- ☐ Mary Barber
- ☐ Brenda Blanchard
- ☐ Barney Brannon
- ☐ Erika Bush
- ☐ Deborah Byrd
- ☐ Mamie Davis
- ☐ Patricia Davis
- ☐ Doug Dills
- ☐ Brandi Dytche
- ☐ Leslie Ennis
- ☐ Angie Faber
- ☐ Sharmeka Fisher
- ☐ Chuck Fleenor
- ☐ Sharon Gathings
- ☐ Susan Gilbert
- ☐ Wendy Gill
- ☐ Brandi Gordon
- ☐ Margaret Griffith & her children Matt and Meghan
- ☐ Barry Guy
- ☐ Alva Hailey
- ☐ Sandy Hammond
- ☐ Heather Haught
- ☐ Darshana Hawks
- ☐ Kurt Hollar and wife Jan
- ☐ Pam James
- ☐ Herb Jeanes
- ☐ Greg Johnson
- ☐ Ron Johnson
- ☐ Gloria Lewis
- ☐ Richard Linville
- ☐ Nick Mambrino
- ☐ Tanisha Martin
- ☐ Renee Metzler, husband Jeff & daughter Caroline
- ☐ Robert Mohler
- ☐ Marrissa Nichols & dog Daisy
- ☐ Rina Patel
- ☐ Lisa Poole
- ☐ Kim Pope
- ☐ Kathy Ramyar
- ☐ Amy Reynolds
- ☐ Jennifer Richey
- ☐ Kim Schroeder
- ☐ Tom Skains
- ☐ Wendy Smith
- ☐ Neil Spicer, his wife Blai & her sister Melanie Vang
- ☐ Tara Stokes
- ☐ Minh Tran
- ☐ Debbie Troxell
- ☐ Shirley White

ON THE MOVE

Brian E. Bishop
to Machine Operator/Mechanic
in Spartanburg.

Marnie L. Coddington
to Service Technician
in Greensboro.

Aaron C. Cromer
to Measurement Systems Engineer
in the Corporate Office.

Benjamin T. Davis
to Courier Driver
in the Corporate Office.

Donald W. Ferguson
to Residential New Construction Rep
in Charlotte.

Tracy M. Funderburk
to Mueller Equipment Operator
in the Corporate Office.

Maria G. Garcia
to Customer Service Rep II
in Winston-Salem.

Heather M. Haught
to Customer Service Rep II
in Charlotte.

Jacqueline G. Hedgepeth
to Customer Service Rep II
in Greensboro.

Michael W. Hedgepeth
to Jr. Operations Technician
in the Corporate Office.

Doreen Kellett
to Customer Service Rep II
in Greensboro.

Mickey R. Martin Jr.
to Stock Clerk
in the Corporate Office.

William A. Roark
to Service Technician
in Spartanburg.

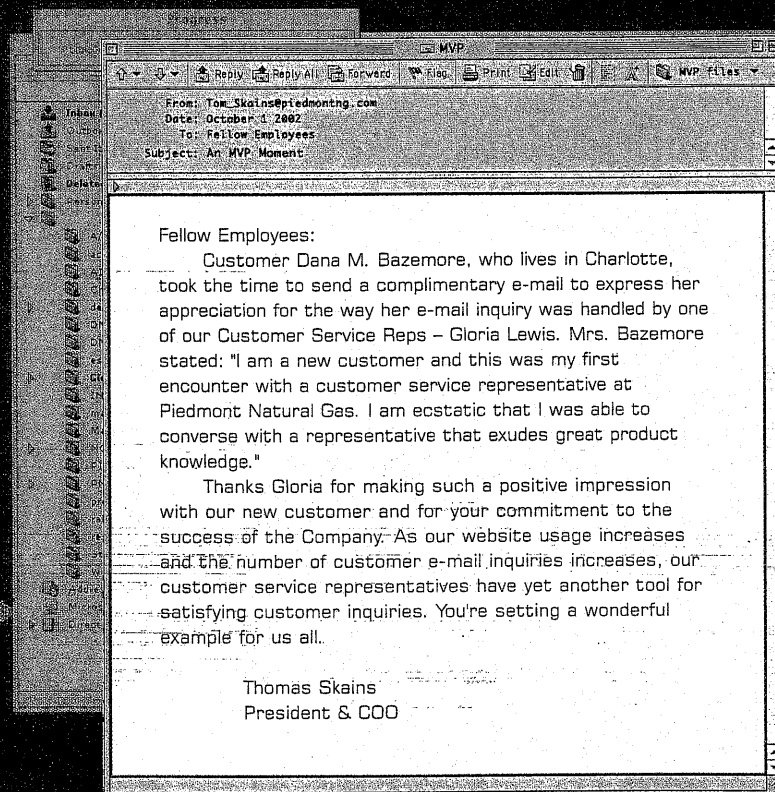
Mara A. Sikora
to Supervisor- Design Engineering
in the Corporate Office.

Michael D. Taylor
to Utility Technician
in Charlotte.

Chadwick L. VonCannon
to Design Engineer
in the Corporate Office.

Sybil G. White
to Storekeeper
in Greensboro.

AN MVP MOMENT



On September 11th Alice Brooks, Marie Butler, Jackie Coble, Betty Mills and Susan Blackburn, Administrative Specialist for the Greensboro District, dressed in red, white and blue to commemorate our freedom.



SERVICE AWARDS

Presented for the months of September and October 2002:

35 YEARS

Danny E. Kirkman
Welder
High Point
Sammy E. Miller
Operations Technician - Corrosion
Salisbury
Joan P. Shook
Customer Service Rep III
Western Region
N. Diane Thompson
Nashville
General Manager - Home Energy Center
Winston D. Vaughn
Service Supervisor
Nashville

30 YEARS

R. Carl Compton
Manager - Customer Accounts
Corporate Office
Lawrence Dwain Cotton
Construction Supervisor
Nashville
Dorothy A. Covington
Customer Service Rep III
Western Region
John S. Morris
Meter Repair Technician
Meter Shop
Elmira T. Wharton
Customer Service Rep III
Southern Region

25 YEARS

Stephen T. Smiley
Cryogenic Technician
LNG Nashville
George Daniel Talley
Supply & Distribution Supervisor
Nashville

20 YEARS

Daniel J. Compton
Customer Accounting Clerk
Nashville

15 YEARS

Michael W. Bracey
Service Representative
Nashville
Roger A. Byrd
Engineering Assistant
Nashville
Jeffrey A. Claud
Service Representative
Nashville
Leslie M. Hubbell
Marketing Coordinator
Nashville

Leroy Joy II
Sr. Utility Technician
Nashville
Steve W. King
Pipe Layer Fusor
Nashville
Patsy L. Nelson
Sr. Customer Service Rep.
Nashville

James E. Pollard
Service Technician
Anderson
Michael A. Sanders
Fitter
Nashville

Toby R. Spencer
Customer Service Rep II
Southern Region
Freda M. Stinson
Administrative Specialist III
Charlotte

George K. Todd
Service Technician
Greenville

10 YEARS

Theresa J. Bond
Industrial Services Rep
Charlotte
Jeffrey M. Elliott
Service Technician
Charlotte
Donald W. Ferguson
Residential New Construction Rep
Charlotte
George H. Fitzgerald
Compressor Operator
Nashville

Mark D. Full
Industrial Meter Repair Technician
Corporate
James E. Jennings
Journeyman
Nashville
Phillip D. Morgan
Sales Supervisor
Spartanburg

5 YEARS

Linda K. Benish
CIS Functional Specialist
Corporate
Courtney J. Cuthrell
Collector/Meter Reader
Winston-Salem
Nicole C. Greene
Sr. Programmer Analyst
Corporate Office
Donna W. Pruitt
Administrative Assistant
Southern Region
Keith C. Quick
Service Technician
Charlotte

Note:
The About Us section will return in its entirety next issue.

WELCOME TO THE NEW EMPLOYEES:

Ralph S. Abernathy,
Collector/Meter Reader
in Charlotte.

Krista B. Brown
to Customer Service Rep I
in Charlotte.

Paola Davila
to Customer Service Rep I
in CIO.

Jeffrey D. DeRossett
to Supervisor- Data Base Admin.
in the Corporate Office.

Thomas H. Hurst
to Appliance Sales Representative
in Nashville.

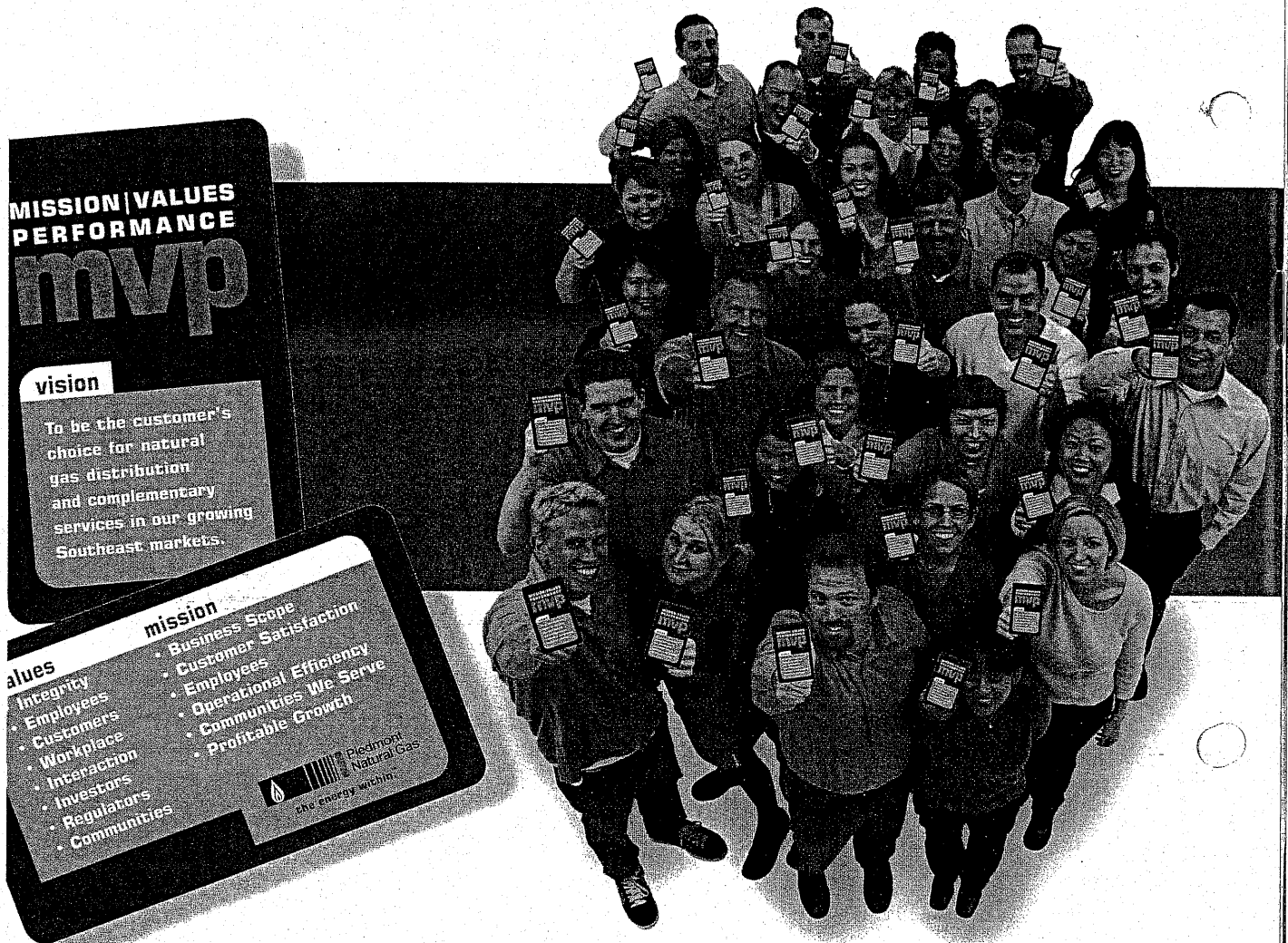
Lisa A. Kershner
to Manager- Integrated Audit
in the Corporate Office.

Richard L. Love
to Collector/Meter Reader
in Greensboro.

Sebastian J. Orozco
to Customer Service Rep I
in CIO.

Chantel Warrington
to Customer Service Rep I
in CIO.

Kenneth W. Zeller
to Collector/Meter Reader
in Charlotte.



More information about Piedmont Natural Gas is available on the Internet at www.piedmontng.com

Piedmont Natural Gas is an energy and services company primarily engaged in the distribution of natural gas to 725,000 residential, commercial and industrial customers in North Carolina, South Carolina and Tennessee. The Charlotte-based company is the second-largest natural gas utility in the Southeast. Piedmont is also invested in a number of non-utility, energy-related businesses including companies involved in unregulated retail natural gas and propane marketing, and interstate and intrastate natural gas storage and transportation.



Address all correspondence to:

Corporate Communications
P.O. Box 33068
Charlotte, NC 28233
Address correction requested

(16)

Exhibit MDC-2

FY2004 Draft Company MVP Plan

(July 16, 2003)

Proposed FY2004 Company MVP Plan

Accountability		Method to Measure	Weight	Threshold	Target	Stretch
Perspective: Financial	Increase Shareholder Value	EPS	TBD	Identified EPS Threshold	Identified EPS Target	Identified EPS Stretch
	Accountability	Method to Measure	Weight	Threshold	Target	Stretch
	Achieve Financial Objectives	Profitable Growth Project / Initiative	TBD	Profitability Study Completed and Proposed Recommendations Implemented by 10/31/2004.	Profitability Study Completed by 05/01/2004 And Proposed Recommendations Implemented by 10/31/2004.	Profitability Study Completed by 05/01/2004 and Proposed Recommendations Implemented by 07/31/2004.
Accountability		Method to Measure	Weight	Threshold	Target	Stretch
Perspective: Customer Service	Deliver Products & Services That Meet or Exceed Customer Expectations	Customer Satisfaction Measurement Project / Initiative to identify and standardize customer service and satisfaction measures and obtain baseline data – including on-going measurement requirements to support the Customer Service Excellence Initiative	TBD	Customer Satisfaction Measurement Initiative with recommendations completed by 07/31/2004 including: Identification of service attributes important to various market segments, analysis of current customer internal satisfaction measurement methods, external review of "best practices" for customer satisfaction measurements, and proposed on-going strategy.	Customer Satisfaction Measurement Initiative completed by 07/31/2004 with threshold requirements, plus identification of external benchmark measures and comparison groups. Subsequent collection of one quarter of baseline data collected under proposed methodology.	Customer Satisfaction Measurement Initiative completed by 04/30/2004 with target requirements, plus subsequent collection of six months of baseline data collected using proposed methodology and proposed service level standards recommended based on initial customer research, benchmark data, and baseline information.
	Manage Customer Relationships as Valuable Assets					
	Accountability	Method to Measure	Weight	Threshold	Target	Stretch
	Be a Good Corporate Citizen by Actively Participating in the Communities We Serve	Measured in State, Regional, District, Department, and Individual MVP plans across the organization. Measures include, but are not limited to, the on-going implementation of the Employee Community Involvement initiative and support or participation in manager approved community involvement activities.				

Proposed FY2004 Company MVP Plan

Internal Process		Accountability	Method to Measure	Weight	Threshold	Target	Stretch
Perspective: Internal Process		Provide Safe, Secure, Reliable Service	Measured in State, Regional, District, Department, and Individual MVP plans across the organization. Measures include, but are not limited to, accountability for personal, public, and pipeline safety. Security and reliability may include gas service to our external customer base and delivery of internal services (automation, information, etc.) to employees and other stakeholders.				
		Manage Key Relationships to Maintain Positive Business Environment	Feasibility study of a Triple Bottom-Line Concept to Measure corporate sustainability.	TBD	Feasibility study completed by 06/30/2004 to include overview of the Triple Bottom-Line and recommendation regarding the appropriateness to PNG as a way to establish and measure corporate sustainability.	Feasibility study completed by 06/30/2004 including threshold requirements. Plus identify companies to use for benchmarking and comparison purposes.	Feasibility study completed by 06/30/2004 including target requirements. Plus based on benchmark comparisons recommend possible FY2005 Triple Bottom-Line goals and / or objectives.
Perspective: Internal Process		Accountability	Method to Measure	Weight	Threshold	Target	Stretch
		Implement Operational Efficiencies & Achieve Expected Benefits	Customer Service "Excellence" Initiative to review and enhance current customer service process to reduce cost of service and achieve greater efficiencies	TBD	Preparation of business case and recommendations for improving internal customer service processes including technology usage, policies, procedures, facilities, organizational structure, and other support strategies for the delivery of more effective and efficient customer service by 04/30/2004.	Business case and recommendations approved by 04/30/2004. Progress on approved initiatives at an agreed upon "target" level.	Analysis and recommendations approved by 04/30/2004. Progress on approved initiatives at an agreed upon "stretch" level.
		Other measures in State, Regional, District, Department, and Individual MVP plans across the organization. Measures include, but are not limited to, on-going integration activities for NCNG / ENCNG, technology implementations or upgrades aimed at increased operational efficiencies, and the examination and modification of business processes to increase efficiency and effectiveness.					

Proposed FY2004 Company MVP Plan

Perspective: Cultural						
Accountability	Method to Measure	Weight	Threshold	Target	Stretch	
Build Results-Focused Organization	Measured in State, Regional, District, Department, and Individual MVP plans across the organization. Measures include, but are not limited to, implementation of an enterprise wide portal solution, automation for the MVP process and other refinements to the planning, performance measurement, reporting / feedback, and compensation programs.					
Accountability	Method to Measure	Weight	Threshold	Target	Stretch	
Enhance Employee Value	Measured in State, Regional, District, Department, and Individual MVP plans across the organization. Measures include, but are not limited to, on-going implementation of the PNG University concept, succession planning, required employee training, and manager approved individual development activities.					
Accountability	Method to Measure	Weight	Threshold	Target	Stretch	
Communicate and Exhibit Shared Values	"The Energy Within" Program components developed and implemented to include (but not limited to): <ul style="list-style-type: none">Employee SurveyRESPECTLeadership Training	TBD	By year-end: <ul style="list-style-type: none">Survey conductedRESPECT implemented in 50% of districtLeadership Training at defined threshold	By year-end threshold requirements. Plus: <ul style="list-style-type: none">Survey results communicated company-wideRESPECT implemented in 75% of districtLeadership Training at defined target	By year-end target requirements. Plus: <ul style="list-style-type: none">Survey action plans prepared including FY2005 goalsRESPECT implemented in 100% of districtLeadership Training at defined stretch	
Total		100%				

Exhibit MDC-3

REVIEW OF OPERATIONS

"For over a decade, Piedmont Natural Gas has been a very important and valued customer of our Company. Piedmont's employees have always honored their commitments and conducted business with the highest integrity and professionalism. We hope to continue as a partner in Piedmont's future success."



John Hess

Chairman and CEO

Amerada Hess Corporation

New York, NY

We will continuously find and implement operational efficiencies.

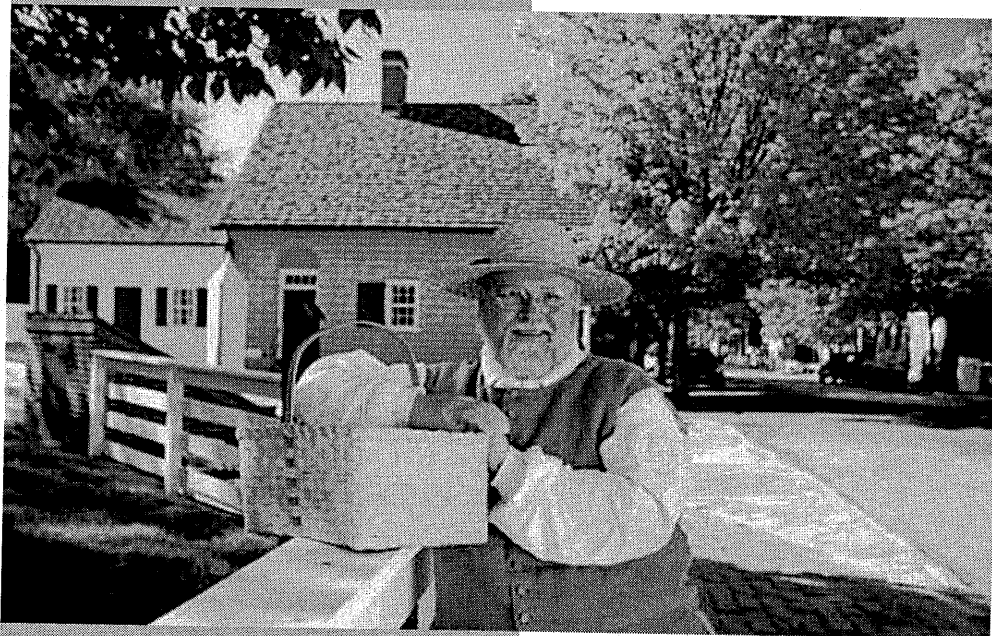
We will market and deliver our products and services using best

practices and cost-effective technologies.



Leveraging Our Core Abilities

Among a successful natural gas distribution company's most prized assets are its financial integrity, employees, service area, customer base, values, brand and vision for the future. Without a clear grasp of the business fundamentals needed to manage those assets, the chances for success are limited. At Piedmont Natural Gas, we are living our values and managing our performance for the benefit of our shareholders, customers and employees and the communities we serve.



Acquisition Opportunities

On October 16, 2002, the Company announced an agreement to purchase the stock of North Carolina Natural Gas (NCNG), a natural gas distribution subsidiary of Progress Energy, and Progress Energy's 50% investment in EasternNC for \$425 million in cash. The acquisition will add 176,000 natural gas customers in eastern and southern North Carolina to the Company's customer base. EasternNC is a joint venture with Albemarle Pamlico Economic Development Corporation (APEC) to bring natural gas service to 14 counties in eastern North Carolina. This

purchase is subject to approvals by various regulatory agencies and is expected to close in mid-2003.

Effective September 30, 2002, Piedmont closed on its purchase of North Carolina Gas Service (NCGS), the North Carolina natural gas distribution division of NUI Utilities, Inc., for \$26 million in cash. The purchase added 14,000 customers in Rockingham and Stokes counties which are contiguous to Piedmont's existing service territory.

Both transactions are consistent with Piedmont's focused and disciplined growth strategy which includes pursuing profitable acquisitions and business ventures in our growing southeastern markets. The Company is committed to meeting or exceeding our customers' expectations, and to becoming meaningful contributors to the new communities we serve as a result of these acquisitions.

Partners in Our Communities

Our community service activities reflect our commitment to provide the time and resources to improve the economic, environmental and social vitality of our service area. As part of that effort, an online grant application process was implemented during the year to make it easier for nonprofit organizations to seek our financial support. Funding is distributed proportionately across our service territory to organizations meeting established guidelines.

Our Share the Warmth and Project Help energy-assistance programs help low-income families and individuals pay their heating bills, no matter what form of energy they use. The Company continues to exhibit steady growth in corporate giving, total employee per capita giving and the percentage of employees giving Fair Share and Leadership gifts to the United Way.



"Although Piedmont has only been around 50 years, they know what it takes to keep alive an irreplaceable part of a community's heritage.

Here at Old Salem, we cherish preserving and re-enacting the ways of our colonial past for ourselves and future generations. The financial support of Piedmont Natural Gas helps us do that, and is very much appreciated."

Paul Reber

President, Old Salem,

Winston-Salem

"Through our church, we help with disaster relief wherever we can—sometimes at home, sometimes far away from home. This winter, we helped keep disaster relief workers well fed with hot meals while they were cleaning up from the biggest ice storm on record in the Carolinas in terms of homes without power. Helping others in need is so gratifying. I couldn't imagine not lending a hand."

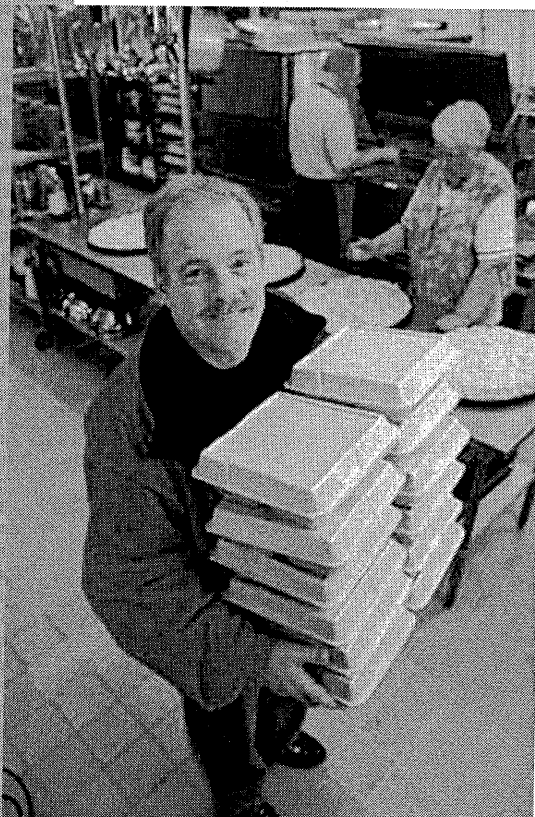
Bill Bishop

*Piedmont New Business
Representative, High Point
and Disaster Relief Volunteer*

Our long-standing corporate culture of charitable giving allows us to be true partners with our communities.

Maintaining Reliable Service

During 2002, the Company delivered 126.1 million dekatherms, compared with 134.4 million dekatherms for the prior



year. This decline was primarily caused by weather that was 15% warmer than normal and 21% warmer than the prior year. Gas deliveries to heat-sensitive residential and commercial markets declined by 12.9 million dekatherms. However, gas deliveries to industrial and power generation customers increased 4.7 million dekatherms in 2002. With lower wholesale gas prices, the Company was successful in recapturing the portion of its industrial market that was temporarily lost to alternate fuel competition during 2001. The Company continues to expand its distribution system to serve new gas-

fired power generation facilities. During the year, the Company added its third significant power generation customer, the Duke Power Mill Creek 640-megawatt gas turbine facility located near Gaffney, South Carolina.

The Company provides gas service to its customers through a diverse portfolio of local peaking facilities, transportation and storage contracts with interstate and intrastate pipelines and supply contracts with major producers and marketers. Despite the major changes and challenges experienced in the natural gas and energy industries during 2002, the Company remained focused on maintaining a reliable supply portfolio from both a physical delivery and credit perspective. Given the volatility in the wholesale price of gas over the past several years, the Company has worked with its state regulatory commissions to develop and implement plans to mitigate the impact of dramatic price increases. These plans include comprehensive natural gas hedging programs recently implemented in the Carolinas.

In 2001, the Company announced its participation in the Greenbrier Pipeline project as both a major customer and a 33% equity owner. During 2002, the Federal Energy Regulatory Commission (FERC) issued both a draft environmental impact statement and a preliminary determination of approval for the project. With these favorable preliminary regulatory rulings, final certificate approval from the FERC is anticipated in 2003. Greenbrier Pipeline is scheduled to commence operations in 2005 and will provide the Company firm transportation capacity to serve our growing markets and further diversify the Company's supply portfolio.

During 2002, the Company continued its success in secondary-market activities. These activities include sales for resale, off-system sales, capacity release, asset

management and other wholesale transactions designed to generate margins and reduce fixed gas costs for customers. The Company generated total secondary marketing margins of \$29.1 million during 2002, with \$21.4 million allocated to reduce fixed gas costs for our customers and \$7.7 million retained by the Company. In 2001, the comparable results were \$25.4 million in total secondary marketing margins, with \$18.1 million reducing costs for our customers and \$7.3 million retained for our shareholders.

Exceeding Customer Expectations

The Company's marketing and sales strengths remained evident in 2002 despite less than favorable economic conditions during the year. The economic diversity of our markets and a focus on profitable customer additions and customer satisfaction resulted in the Company adding

over 28,000 new customers to our distribution system during the year. Representing a growth rate of nearly 4%, the Company's market growth continues to place it in the upper tier of local distribution companies nationwide.

In the residential market, the Company added 25,600 customers. Of this total, 20,700 were the result of new home construction, a market segment in which the Company enjoys a market share in excess of 90% in the areas it serves. The other 4,900 residential additions were from existing homeowners converting their primary energy source to natural gas. Significantly, nearly 80% of all residential customers added utilize natural gas water heating in addition to gas heating. The addition of water heating load increases the Company's profitability by enhancing the efficient utilization of capital resources used to serve customers. At



"Piedmont Natural Gas and its employees are vital supporters of the environment. Not only do they provide a clean energy source, but they actively support wildlife rehabilitation and environmental education programs through the Carolina Raptor Center. We appreciate their service through representation on our board of directors and other volunteer opportunities."

Alan Barnhardt

Executive Director

Carolina Raptor Center, Charlotte

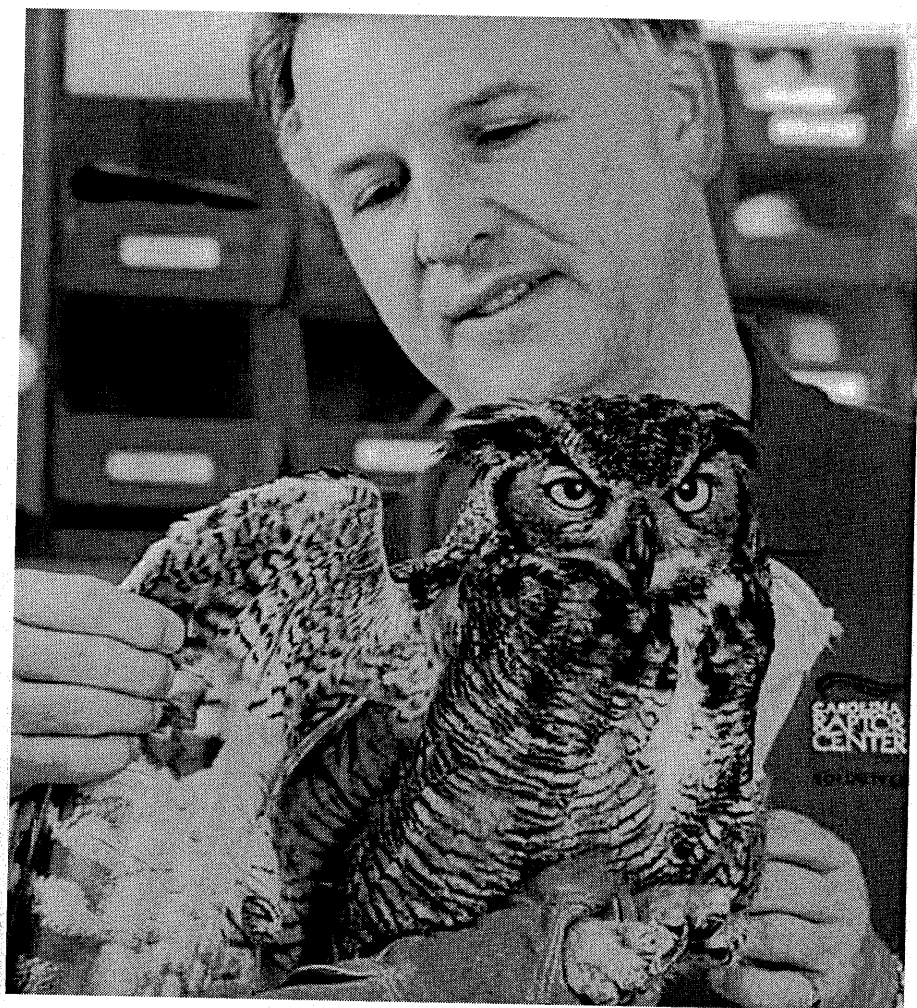
Tom Stroozas (left)

Manager of Food Service,

Corporate Office

and Volunteer Board Member,

Carolina Raptor Center, Charlotte





"My thanks to Piedmont and my fellow employees for their support while I served my country during the "Operation Enduring Freedom" campaign against terrorism. Representing my state was a privilege and honor that I will always cherish. Having an employer as supportive and understanding as Piedmont makes serving that much easier."

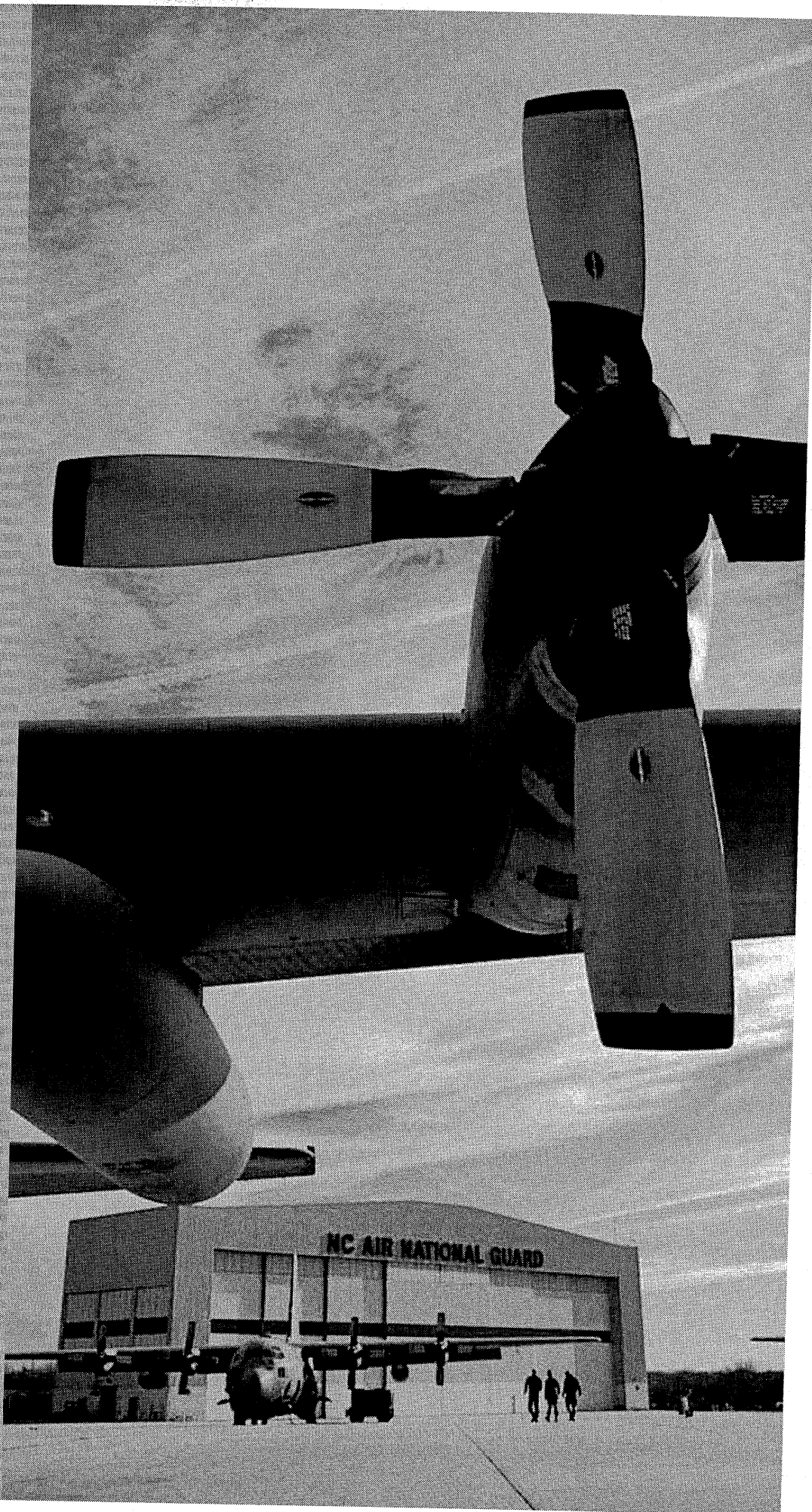
Gregory Brown

Piedmont Operations Technician,

Charlotte

and Technical Sergeant,

NC Air National Guard



the same time, natural gas water heating reduces the customer's overall energy bill through efficiency and operating advantages compared with the electric alternative.

The Company added 2,400 new commercial customers during the year. As in the residential market, the bulk of the commercial growth was the result of new construction activity. Because of their higher consumption and year-round usage patterns, commercial customers are an important part of the Company's continuing success. Our efforts are focused on providing a variety of technical services and information in a manner that adds value for the commercial customer.

The Company continues to seek profitable utility growth opportunities beyond its existing distribution operations consistent with its core business strategies. In 2002, the Company added 14,000 customers from the purchase of NUT's gas distribution system in Reidsville, North Carolina, which brought the Company's total fiscal year 2002 gross customer additions to 42,000.

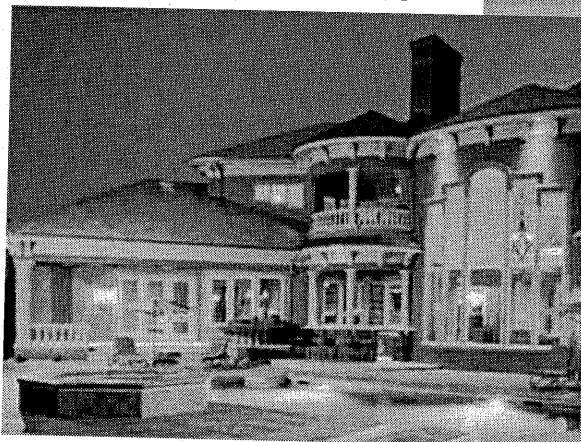
Looking ahead, the Company's efforts will continue to focus on efficient, quality customer growth, with enhanced customer satisfaction and profitability.

Creating Complementary Investments

Consistent with its business scope and mission, the Company continues to leverage the strengths of its markets and core abilities by pursuing complementary non-utility business opportunities focusing on wholesale and retail energy services. The Company's non-utility investment subsidiaries include Piedmont Interstate Pipeline, Piedmont Energy, Piedmont Intrastate Pipeline, Piedmont Propane and Piedmont Greenbrier Pipeline. These investments contributed \$11.2 million to net income in 2002.

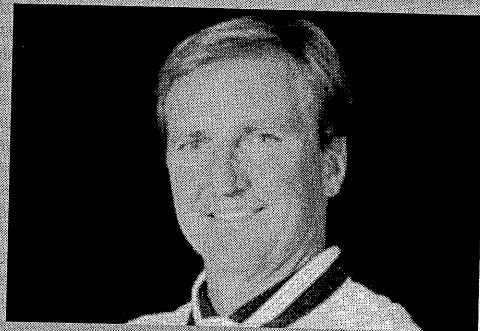
Piedmont Interstate Pipeline is a 35% member of Pine Needle LNG Company, L.L.C., which owns and operates an LNG facility located in Guilford County, North Carolina. The 4.14 million dekatherm interstate storage facility is one of the largest of its type in the nation, with liquefaction capacity of 21,000 dekatherms per day and vaporization capacity of 414,000 dekatherms per day. Pine Needle provides cost-effective storage peaking service to customers on the Williams-Transco pipeline system in the southeastern gas markets and is fully subscribed under long-term contracts.

Piedmont Energy has a 30% interest in SouthStar Energy Services LLC. SouthStar markets unregulated natural gas to residential, commercial and industrial customers in the Southeast. As of November 2002, SouthStar, operating as Georgia Natural Gas Services, was selling natural gas to over 550,000 customers in Georgia,



representing a 38% market share, the largest in the state. SouthStar also sells natural gas to industrial customers in Georgia, North Carolina, South Carolina and Tennessee.

Piedmont Intrastate Pipeline is a 16.45% member of Cardinal Pipeline Company, L.L.C., which owns and operates a North Carolina intrastate pipeline that transports gas supplies to serve the demand for natural gas in the region. The 104-mile



"We use only the highest quality materials and craftsmen, and the best high-efficiency gas equipment is a must in our market. Simonini Builders' clients demand luxury and perfection when they enter their new home,

including gas heat, water heaters and appliances. Time after time, Piedmont's expertise on the latest and best gas appliances aids in both the design and sales process."

Alan Simonini

Chairman and CEO

Simonini Builders, Charlotte

Named America's Best Builder 2002 by

BUILDER Magazine and the National

Association of Home Builders



"I've been serving as a volunteer fireman as long as I've been with Piedmont—22 years now. Working a fire is no fun, but serving my community as a fireman in my off-hours allows me to really give something back. I receive great satisfaction helping protect the people where I live as a fireman, just as I enjoy serving my Piedmont customers in my day job."

Rick Simpson

*Piedmont Service Supervisor, High Point
and Volunteer Fireman*



pipeline is fully subscribed under firm long-term contracts and has a total capacity of 270,000 dekatherms per day.

Piedmont Propane owns 20.69% of the membership interest in US Propane, L.P., which in turn owns all of the general partnership interest and approximately 31% of the limited partnership interest in Heritage Propane Partners. Heritage is a coast-to-coast company that distributes propane to over 600,000 customers through 275 customer service locations in 28 states. Heritage Propane is a publicly traded master limited partnership, and is the fourth largest propane distributor in the United States.

Piedmont Greenbrier is a 33% member of Greenbrier Pipeline Company, L.L.C. Greenbrier Pipeline is proposing a 280-mile interstate pipeline from West Virginia to North Carolina linking multiple natural gas supply basins and storage to growing demand in residential, commercial, industrial and power generation markets in the Southeast. The \$497 million pipeline, to be constructed and operated by Dominion Transmission, will be project-financed by the Piedmont and Dominion members. The pipeline is scheduled to commence service in 2005 to meet power generation and local gas utility market requirements.

Upon approval of the North Carolina Natural Gas acquisition, Piedmont's ownership interests in Pine Needle and Cardinal Pipeline would each increase by 5%.

Managing Financial Integrity

The Company financed its continued growth during 2002 primarily with internally generated cash and bank lines of credit. To take advantage of declining interest rates, the Company used various short-term financing options that included transactional borrowings, overnight cost-plus loans based on the lending bank's

cost of money and LIBOR cost-plus rates. The weighted average annual interest rate on such borrowings during the year was 2.35%, approximately 50% less than the weighted average annual prime interest rate for area banks.

Under bank lines of credit, the Company had \$46.5 million in short-term debt outstanding at October 31, 2002. The weighted average interest rate on such borrowings was 2.23%, compared with the prime rate of 4.75% on that date.

Cash requirements to fund 2003 capital additions and the proposed acquisition of North Carolina Natural Gas and a 50% interest in Eastern North Carolina Natural Gas (EasternNC) will be provided by internally generated cash, short-term borrowings, the Dividend Reinvestment and Stock Purchase Plan, the Employee Stock Purchase Plan and the anticipated sale of long-term securities.

Restructuring Our Rates

During 2002, the North Carolina Utilities Commission (NCUC) and the Public Service Commission of South Carolina (PSCSC) approved general rate increases totaling \$22.3 million annually for the two states beginning November 1, 2002.

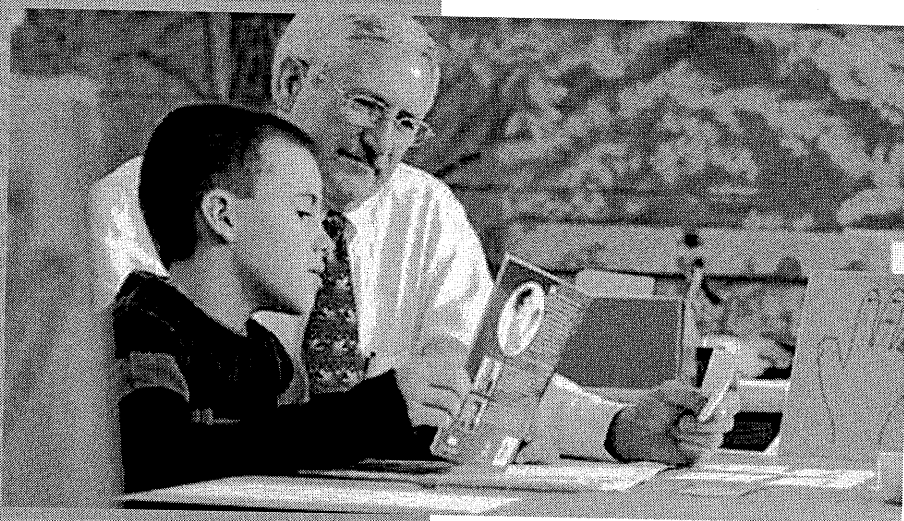


"For the past 50 years, Nashville Gas has presented the Nashville Christmas Parade for the enjoyment of our community. We know we can count on Nashville Gas employees. In financial support and volunteerism, the company and its employees contribute to our area in so many ways."

Bill Purcell

Mayor of Nashville





*"At HOSTS, the mission is simple—
Help One Student To Succeed. HOSTS
is a structured, individualized,
mentoring program that makes a
significant difference in a child's life.
As a mentor, it is very gratifying for
me to see a child identified as having
reading difficulties experience
success on a regular basis through
one-on-one mentoring.
It makes it all worthwhile."*

Mike Forrester

*Piedmont District Manager,
Spartanburg
and HOSTS mentor*

Approval was also received in both states to restructure the Company's residential and commercial rate classifications. Residential rate classifications will now be based on actual usage patterns rather than the type of appliances used. Commercial customers were reclassified into one of four new rate categories also based on actual usage patterns.

As part of the rate case proceedings, both Commissions approved increases in the Company's monthly facility charges effective November 1, 2002. These charges are fixed and are not dependent on customer natural gas consumption. By shifting more of our margin recovery from a volumetric to a fixed basis, the impact of the Weather Normalization Adjustment (WNA) on customers' bills due to abnormal weather is also mitigated.

The PSCSC also approved tariff changes to allow for the further unbundling of sales and transportation services to industrial customers. These revisions bring South Carolina in line with tariff changes previously approved by both the NCUC and the Tennessee Regulatory Authority. The resulting decrease in unbundled industrial rates will enable the Company to compete more effectively with alternate fuels in the South Carolina market.

The Company continues to receive favorable rulings on special negotiated contracts with large industrial and power generation customers. These special contracts enable the Company to meet competition from alternate fuel sources and retain long-term customers.

Corporate Organization

On February 22, 2002, Ware F. Schiefer, Chief Executive Officer, was elected Vice Chairman of the Board of Directors and Thomas E. Skains, formerly Senior Vice President – Marketing and Supply Services, was elected President and Chief Operating Officer. Effective March 18, Franklin H. Yoho joined the Company as Senior Vice President – Marketing and Supply Services.

On December 20, 2002, the Board of Directors announced that Mr. Schiefer will retire at the Company's annual meeting of shareholders to be held on February 28, 2003. The Board also announced that Mr. Skains was elected to the position of President and Chief Executive Officer, effective upon Mr. Schiefer's retirement. Mr. Schiefer will also retire from the Board at the February 28 meeting. The Board also announced that John H. Maxheim, Chairman of the Board, will retire from the Board at the February 28 meeting. In recognition of his more than 20 years of service as Chairman and Chief Executive Officer, Mr. Maxheim will be awarded the honorary title of Chairman Emeritus.

"Last year we celebrated the first 50 years of Piedmont's history. Next year, Tom Skains will be directing our highly competent and well-seasoned management team and talented and dedicated employees to future success for the Company and our shareholders. Under Tom's energetic, visionary leadership, you can rely on a smooth transition into the next half-century."

Ware F. Schiefer



Thomas E. Skains
*President and
Chief Operating Officer*

To Our Shareholders

2002 was a turbulent year for corporate America and particularly for the energy industry. While some energy companies lost their focus, Piedmont remained committed to its vision, mission and core values. In a challenging year economically, we remained above the turmoil and held steadfast to our core abilities and values – thereby maintaining our financial integrity and profitability for investors.

Piedmont's Vision

Our vision is "to be the customer's choice for natural gas distribution and complementary services in our growing southeast markets." This simple statement drives all that we do. Our core business is natural gas distribution, and it will remain so. We will continue to grow internally and through economic gas utility acquisitions

and energy-related ventures. We are committed to profitable, responsible growth – not growth for its own sake.

Ware F. Schiefer
Chief Executive Officer

The Economy, Weather, Earnings and Dividends

The economy in our service territory, although sluggish in certain areas, exhibited resiliency in 2002. Our internal customer growth rate – at 4% – continues to be among the highest in the nation. We continue to achieve over 90% of the new home construction market in the areas we serve. The wholesale cost of natural gas, although increasing at year-end, remained competitive and was significantly below the level of two years ago.

Net income decreased 5% from \$65.5 million in 2001 to \$62.2 million in 2002, primarily due to lower throughput and utility margin and higher depreciation expense and interest charges, partially offset by an increase in earnings from secondary marketing and non-utility activities. Basic earnings per share were \$1.90 in 2002, compared with \$2.03 in 2001. Utility margin was adversely impacted by weather that was 15% warmer than normal and 21% warmer than the year before.

Despite these challenges, we remain confident about earnings growth for your Company and are proud that we have been able to increase our dividend to shareholders for the past 24 consecutive years.

Our Complementary Non-Utility Investments

Although our core business will remain natural gas distribution, we intend to

leverage the strengths of our markets and core abilities to pursue closely related non-utility business opportunities, with particular focus on wholesale and retail energy services. Our non-utility interests in retail natural gas marketing and natural gas storage and transportation continued to contribute positively to earnings. Non-utility ventures contributed \$11.2 million to net income, or \$0.34 per share, in 2002, compared with \$9.7 million, or \$0.30 per share, in 2001.

Acquisition Opportunities –

NCGS and NCNG

October 2002 was a particularly busy month for your Company. We closed our purchase of the North Carolina Gas Service (NCGS) distribution system, previously a division of NUI Utilities, which serves 14,000 customers in the North Carolina counties of Rockingham and Stokes.

We also announced an agreement to purchase North Carolina Natural Gas (NCNG) from Progress Energy (Progress) and Progress' 50% interest in EasternNC for \$425 million in cash. This is the largest acquisition in Piedmont's history and is expected to be accretive to earnings in our fiscal year 2004, the first full year following the anticipated mid-2003 closing. The transaction requires approval from the North Carolina Utilities Commission (NCUC), the Securities and Exchange Commission (SEC) and the U.S. Department of Justice.

We will be proud to include the customers of NCNG among those we already serve in North Carolina.

Rate Increases and Restructuring

In October, the NCUC and the Public Service Commission of South Carolina (PSCSC) issued orders approving overall rate increases totaling \$22.3 million for the Company effective November 1, 2002. The orders include new rates designed to improve the Company's return on its utility investments and rate structures that more properly align rates with the seasonal costs of serving different customer classes.

Customer Satisfaction

At Piedmont, we strive to know our customers and meet or exceed their expectations. In October, the Company was pleased to receive notification from J.D. Power and Associates that we ranked second in the nation in customer satisfaction among natural gas utilities, missing the top position by only one point. The inaugural study measured customer satisfaction based on company image, price and value, billing and payment, field service and customer service.¹

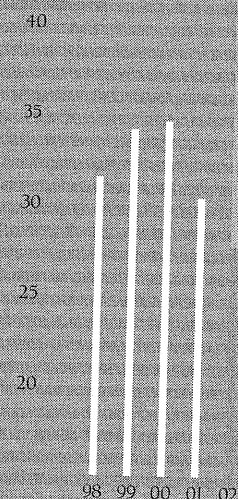
Our Financial Integrity

In August, we voluntarily affirmed our financial integrity in response to the well-publicized misdeeds of some public corporations during the year. Although

Dividends Paid Per Share



Natural Gas Gross Customer Additions
In thousands



14,000 customers added through acquisition of North Carolina Gas Service

"We are fortunate to have had Ware Schiefer's leadership as Chief Executive Officer over the last three years. He has led with integrity and purpose – always focused on the best interests of the Company's customers, employees and shareholders. Ware's contribution to our vision, mission and core values will benefit the Company for many years to come. He leaves Piedmont Natural Gas with a strong foundation for future success and with our collective admiration, respect and gratitude."

Thomas E. Skains

not required to do so, Chief Executive Officer Ware Schiefer and Chief Financial Officer David Dzuricky signed and filed sworn statements with the SEC certifying the filings made by the Company with the SEC in 2001 and 2002.

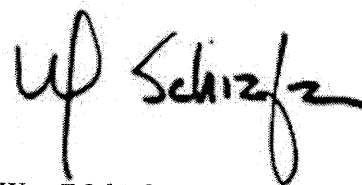
We voluntarily certified these filings as part of our ongoing commitment to demonstrate the integrity of our Company and to continue to provide our investors with honest and accurate information about our finances. We stand behind the Company's financial disclosures and procedures and are very proud of the values and performance of our employees.

A Time of Transition

After 38 years with the Company, I will be stepping down as CEO at the Annual Shareholders' Meeting in February. I will take with me the fondest of memories of all of the employees with whom I have had the privilege of working in serving our customers.

Last year we celebrated the first 50 years of Piedmont's history. Next year, Tom Skains will be directing our highly competent and well-seasoned management team and talented and dedicated employees to future success for the

Company and our shareholders. Under Tom's energetic, visionary leadership, you can rely on a smooth transition into the next half-century.



Ware E. Schiefer

Chief Executive Officer

We are fortunate to have had Ware Schiefer's leadership as Chief Executive Officer over the last three years. He has led with integrity and purpose – always focused on the best interests of the Company's customers, employees and shareholders. Ware's contribution to our vision, mission and core values will benefit the Company for many years to come. He leaves Piedmont Natural Gas with a strong foundation for future success and with our collective admiration, respect and gratitude.



Thomas E. Skains

President and Chief Operating Officer

January 10, 2003

¹ J.D. Power and Associates 2002 Gas Utility Residential Customer Satisfaction Study SM

DISCOVERY REQUEST

INTERROGATORIES AND REQUESTS TO PRODUCE

DISCOVERY REQUEST NO. 1:

DISCOVERY REQUEST NO. 1:

Provide all information concerning forfeited sicounts and revenues since the last rate case.

DISCOVERY REQUEST NO. 2:

Provide documents for all expenses related to Account 903 (Customer Records and Collection Expenses) listed by subaccount, by year since the last rate case.

DISCOVERY REQUEST NO. 3:

Provide all policies and procedures used in billing, collecting and writing off uncollectible accounts as of the test year in the latest rate case and as of 7/1/2003. Provide a narrative or other summary of the potential impact of any changes on bad debts expense.

DISCOVERY REQUEST NO. 4:

What other factors may have caused a change in bad debts expense since the last rate case?

DISCOVERY REQUEST NO. 5:

Provide an analysis of the total amount of capital required to "carry" the accounts receivable balances associated with customers that pay after the due date (date when the late payment charge is added to the billed balance):

- a) using the latest available year, and

- b) using the test year from the latest rate case.

DISCOVERY REQUEST NO. 6:

What is the current cost of short term debt for your company?

DISCOVERY REQUEST NO. 7:

Would it be agreeable to ask the TRA to take administrative notice of the administrative record of the latest rate case for each LDC represented in this petition?

DISCOVERY REQUEST NO. 8:

Identify each person whom you expect to call as an expert witness at any hearing in this docket, and for each such expert witness:

- (a) identify the field in which the witness is to be offered as an expert;
- (b) provide complete background information, including the expert's current employer as well as his or her educational, professional and employment history, and qualifications within the field in which the witness is expected to testify, and identify all publications written or presentations presented in whole or in part by the witness;
- (c) provide the grounds (including without limitation any factual basis) for the opinions to which the witness is expected to testify, and provide a summary of the grounds for each such opinion;
- (d) identify any matter in which the expert has testified (through deposition or otherwise) by specifying the name, docket number and forum of each case, the dates of the prior testimony and the subject of the prior testimony, and identify the transcripts of any such testimony;
- (e) identify for each such expert any person whom the expert consulted or otherwise communicated with in connection with his expected testimony;
- (f) identify the terms of the retention or engagement of each expert including but not limited to the terms of

Exhibit MDC-4

DIST-1

NASHVILLE GAS COMPANY
Distribution Expense
For The Twelve Months Ending October 31,2004

Line No.		Test Year Amount	Growth Factor	Test Year Adjusted For Attrition
---		-----	-----	-----
		(1)	(2)	(3)
1.	Distribution-LNG Operations	\$82,126	1.0790	\$88,614
2.	Distribution-LNG Maintenance	54,420	1.0790	58,719
3.	Distribution-Operations	625,122	1.0790	674,507
4.	Distribution-CIE	391,196	1.0790	422,100
5.	Distribution-Maintenance	2,477,109	1.0790	2,672,801
6.	Distribution-Customer Acct.	1,062,233	1.0790	1,146,149
7.	GTI Funding	<u>0</u>	Footnote A	<u>185,409</u>
8.	Total	\$4,692,206		\$5,248,299
A/	Attrition Period Sales Volumes (DT)		18,540,893	
	Funding/Unit		<u>\$0.01</u>	
	Funding Amount		\$185,409	

Exhibit MDC-5